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SIPDIS

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E FOR THOMAS PIERCE, WHA FOR WHA/BSC AND WHA/EPSC
PASS NSC FOR JOSE CARDENAS
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
PASS USTR FOR SUE CRONIN AND MARY SULLIVAN
TREASURY FOR ALICE FAIBISHENKO
USDOC FOR ALEXANDER PEACHER AND JOHN ANDERSEN
US SOUTHCOM FOR POLAD

E.O. 12958: N/A
TAGS: ECON ETRD AR
SUBJECT: GSP GRADUATION FOR ARGENTINA? - JUST ANOTHER BRICK
IN THE WALL

REF: A. STATE 128359
¶B. BUENOS AIRES 1665

SUMMARY

¶1. (SBU) A possible Argentine graduation from the Generalized System of Preferences (GSP) program will certainly hurt both specific production sectors, including leather and food products and some underdeveloped provinces where U.S. GSP export production is concentrated, including Santa Fe, Chubut and La Rioja. However, the overall impact of a graduation will likely be minimal, as GSP exports represent only 1.5% of global Argentine exports. The bulk of GSP exports face U.S. tariffs in the low 2-4 percent range -- enough to impact profit margins and possibly U.S. import decisions on the margins, but relatively minor in relation to the significant impact that Argentina's heterodox trade policy continues to have on the export sector. While the overall economic impact of a GSP graduation will be minimal, the political fallout of what many in the Kirchner administration will interpret as U.S. retribution for Argentina's WTO and FTAA positions could add to bilateral

frictions.
END SUMMARY

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EXPORTS: GSP IN THE OVERALL PICTURE, AND KEY SECTORS
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¶2. (U) Argentine 2005 global exports in 2005 totaled USD 40.1 billion, and are projected to rise to 44.3 billion in 2006. Total 2005 exports to the U.S. were USD 4.6 billion (11.6% of all exports), and are projected to drop to 4.248 billion (9.6% of exports) this year. However, GSP exports are expected to climb from USD 616.6 million (13.3% of exports to the U.S. and 1.5% of global exports) in 2005 to the 670 million range (15.8% of exports to U.S. and still 1.5% of global exports) in 2006. Argentina was the 10th largest exporter under GSP in 2005, on pace to rise to 9th in 2006, passing Russia. Fifteen HTS product lines make up 50% of all GSP exports from Argentina, led by leather (USD 64 million in 2005, of which $48 million entered under competitive needs limit - CNL - waivers) and beef ($55 million), followed by methanol ($48 million), aluminum ($29 million), sugar confectionery ($27 million), cheese ($24 million), olive oil ($20 million) and car parts ($19 million). Total Argentine leather exports to the U.S. in 2005 totaled over USD 129 million, 16 percent of USD 827 million in leather exports to the entire world.

¶3. (SBU) Should GSP graduation lead to a reduction in exports, some of the less developed regions of Argentina could be the most affected. A substantial share of beef and

cheese products exported to the U.S. is sourced from the rural province of Santa Fe. Olive oil comes principally from La Rioja, one of Argentina's poorest provinces. 98% of GSP aluminum products come from the southern mountain region of Chubut. As for sectors, while car parts and cured beef exports under GSP only represent 4% and 6% of global Argentine exports, the majority of global exports of methanol, carbonates, upholstery leather, other organic compounds (HTS 29310090), strawberries and dried apples go to the U.S. with GSP treatment.

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KIRCHNER RESPONDS - "NO MORE CARNAL RELATIONS"
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¶4. (SBU) President Kirchner responded harshly on August 9 to the USTR announcement of Argentina's GSP review, saying that Argentina "no longer has carnal relations" with other countries (paraphrasing an often-parodied characterization of intimate U.S.-Argentine relations during the 1990s by ex-President Menem's Foreign Minister DiTella). Press reports later indicated Kirchner instructed his staff not to go out of their way to seek to maintain GSP privileges. Kirchner's response was probably shaped by earlier press reports which called the GSP review a "reprisal" for GoA positions on the FTAA and in the Doha Round, the GoA's welcoming of Venezuela into MERCOSUR (ref B) and Kirchner's behavior at the Mar del Plata Summit of the Americas in November 2005. Embassy was active in the days after the August 9 USTR announcement in explaining to the GOA, business sector and the press that the review process was based on objective criteria and was in no way connected to these factors. Local media failed to report that the GSP review process began in October 2005, before any of those events occurred. Also ignored was that fact that GSP benefits were granted to 72 additional Argentine products in the aftermath of Argentina's 2001-02 economic crisis.

¶5. (SBU) Comments by Alberto Chiaradia, Secretary for Foreign Trade at the MFA, opining that any USTR decision on Argentine GSP graduation would be made strictly on economic, not political criteria, were relegated to the end of articles, if mentioned at all. Comments by Argentina's Ambassador to the U.S. Jose Bordon got slightly more attention, as he emphasized that it was "incorrect to talk about commercial

sanctions." In a private meeting with Charge and Econoffs August 29, Chiaradia noted that, while he didn't "want to paint a picture of catastrophe," Argentine exports would certainly be harmed. He assured Charge the GoA would provide formal comments to USTR and that they would be "measured and appropriate." Adrian Serra, the MFA's U.S. economic desk officer, told Econoff August 18 that GSP graduation would be a "strong blow" to some sectors, and thought that, assuming Brazil is also graduated from the program, most lost trade would be diverted to China. He denied rumors that Kirchner

had ordered GoA officials responsible for drafting the government's formal response not to request continuation of the program.

PRIVATE SECTOR CONCERNS

¶6. (SBU) Maria Solari, Director of International Relations for the Argentine Chamber of Exporters (CERA, an NGO), told EconCouns August 22 that withdrawal of GSP benefits "would be an awkward blow for Argentina," but added that CERA was "pessimistic" about how much their opinion would add to those of U.S. importers. Luis Pagani, President of Arcor, Argentina's largest sweets exporter, told Charge August 25 that up to USD 90 million in his company's exports would be affected by GSP graduation. While the company's Manager of Public Affairs later clarified that Arcor's exports to the U.S. total only USD 19 million, graduation will impact food product exports: In comments prepared by the Argentine Industrial Chamber of Food Products (CIPA), of which Arcor is a member, out of USD 56.7 million in 2005 exports to the U.S. market (out of USD 422 million in worldwide exports), fully 94% were under GSP. CIPA also indicated that members' manufacturing facilities are located "mainly in regions with the lowest economic development."

¶7. (SBU) The local American Chamber of Commerce collaborated with post on a survey sent to its members, which, while not eliciting a significant response, did attract some pointed comments. Molinos Rio de la Plata, an agricultural firm, noted that GSP exports value at USD 7.5 million in 2006 (up from USD 5 million in 2004/05) would be subject to duties as high as 18% (soy/sunflower oil, HTS 15179010). The firm predicted that the EU would benefit from Argentina's GSP termination, both in the oils and pastas (citing production subsidies as the factor that would make the EU firms more competitive). Another member (a subsidiary of Hewlett Packard), which does not export under GSP but serves clients that do, commented that a negative decision "would be very prejudicial for commercial relations between the two countries." Solari noted that, while Argentina is an upper-middle income country by World Bank standards, many GSP exports, such as olive oil and strawberries (USD 6.6 million in 2005 exports - Serra also highlighted them), are produced in poor areas of the country. Leather production, on the other hand, is concentrated in the relatively wealthy Province of Buenos Aires. She also singled out HTS # 72029920 (calcium silicon ferroalloy, USD 7.9 million in GSP exports in 2005, and USD 7.1 million to date in 2006) as a product which currently competes with Brazil, France and China, but would not do so with the loss of GSP status. Cheese would face a new 15% duty, though the cost of this would probably be less than the total benefit the sector has gained from the recent export tax reduction from 10% to 5%.

COMMENT

¶8. (SBU) Post anticipates the impact of GSP graduation for Argentina to be negative, but not excessively so. Argentine exports under the GSP program in 2005 represented less than

15% of total Argentine exports to the U.S. and only 1.5% of global Argentine exports. While an Argentine graduation from program benefits would certainly be felt in specific sectors noted above, the bulk of GSP exports face U.S. tariffs in the low 2-4 percent range -- enough to impact profit margins and possibly U.S. import decisions on the margins, but relatively minor in relation to the significant impact that Argentina's heterodox trade policy continues to have on the export sector.

¶9. (SBU) Argentina's post-crash export boom has been driven in large part by directed government policy that, according to IMF estimates, undervalues its currency between 18 and 36 percent. Exporters have had to contend with the imposition of high and highly distortionary product-specific export tariffs and outright export bans as the GoA attempts to address domestic inflationary pressures through price controls and supply-side market manipulation. Beef exports, for example, have already fallen 37% in 2006 compared to the same period in 2005, thanks to a full and later partial ban on exports. In the face of what Argentine exporters call heavy handed and often capricious GoA interventions, post has been hard pressed to elicit significant concerns about a potential slight increase in U.S. tariffs from exporters facing almost daily changes in the rules of the Argentine trade game. While the overall economic impact of a GSP graduation will be minimal, the political fallout of what some in the Kirchner administration will interpret as U.S. retribution for Argentina's WTO and FTAA positions could add to bilateral frictions.
MATERA